GLOBAL OUTLOOK

ECONOMY & FINANCIAL MARKETS

ANDBANK Private Bankers

Andbank Monthly Corporate Review | April 2018

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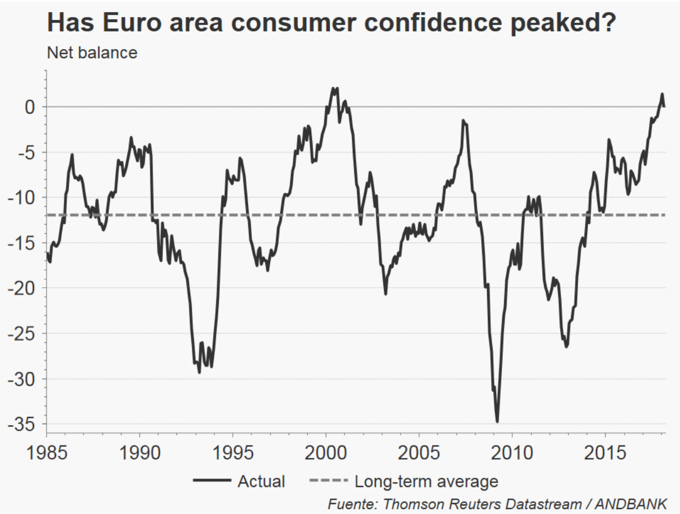
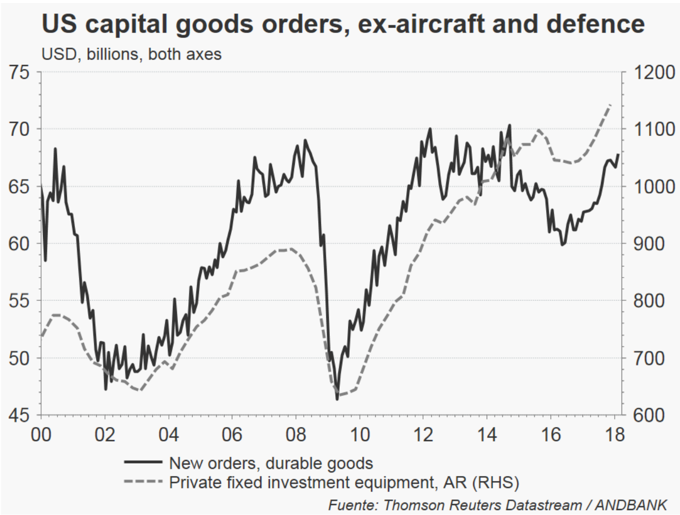
Corporate Review

April 2018

EXECUTIVE SUMMARY

CHARTS OF THE MONTH





EQUITIES

Recent earnings momentum has been driven almost entirely by tax cuts in the US. Earnings increases from tax cuts are of a much lower quality (all of the increase in EPS estimates is happening below the line). Thus the market will be less willing to pay high PE ratios. As a result, we do not expect a quick return to prior highs in multiples, but we do think higher highs for the S&P are likely ahead of us before the end of the year. We maintain our targets for the European indexes, where we still see value despite de recent turmoil in global equities. We keep our constructive stance for the Asian equity markets.

FIXED INCOME

Negative outlook for long-dated government bonds denominated in USD, EUR, GBP and JPY. We keep our fundamental target for the UST 10-year yield at 3.25%, and our targets (entry points) for European government bonds (Bund at 0.90%, Spain at 1.65%, Italy at 2.1%, Portugal at 2.2%, Ireland at 1.1% and Greece at 4.5%). We still see value in some EM government bonds, specially in Asia, where the recent rise in nominal rates has left real yields at attractive levels (>250bps). In Latin America we see little value in USD bonds for Mexico and Brazil. We like Argentinean bonds in USD

CORPORATE CREDIT

Investment Grade bonds in USD – Positive (target for the CDX IG at 45). High Yield bonds in USD – Cautious (target for the CDX HY at 413, currently at 338). Investment Grade bonds in EUR – Negative (target for the Itraxx Europe at 75). High Yield bonds in EUR – Neutral/Cautious (target for the Xover at 300. Currently at 290)

CURRENCIES

The EUR/USD faces a very important resistance at 1.26, which we believe will not be broken. After that, the EUR/USD will move back into the mid-term range: first towards 1.15 (this year, according to this analysis). Our more fundamental discussion suggests that the USD offers good value at current levels.

COMMODITIES

The Trump administration is looking to accelerate the leasing process for Alaska's Arctic National Wildlife Refuge, were there are between 4.3B-11.8B barrels of recoverable oil. The failure to recertify the deal with Iran could lead other countries to reduce purchases of Iranian crude oil, which could in theory take a sizable number of barrels of oil off the market. In our view, the oil price crossed the upper part of a fundamental range.

USA
Recession risk remains low

Libor - IOS spread? No stress in the banking sector

The true reason for the jump in the Libor-OIS spread is the Fed's decision to provide less dollars to a system (economy) in full expansion with increasing working capital requirements (see chart 1). There is no stress in the banking sector per se.

US recession risk remains low: Outlook

Hard data have been surprisingly weak to start the year, but we continue to expect growth to remain above trend. Underlying fundamentals remain strong, and for now we are viewing the short-term weakness as a temporary correction: (1) The labor market continues to outperform, with job gains coming in at 313K in February. (2) Wage acceleration, at 2.6% yoy in February, is likely to sustain household income growth. (3) Disposable income has been boosted further by tax cuts, with measures of consumer confidence at or near multi-year highs. (4) The savings rate, which has declined sharply in recent years, showed a modest rebound in January. (5) Corporate profits and favorable tax changes should support a reacceleration in business equipment investment.

Trade tensions

Strong investment spending should lead to a wider trade deficit, but this can be partly offset by a weaker dollar and strong global demand, which boost exports. Disruptive trade policies are a risk, but narrowly-targeted tariffs are unlikely to have a significant direct effect on growth. We still consider these trade theatrics more as negotiation tactics than as a real threat.

Fed & inflation

The Fed's chief could be considering a more aggressive pace of rate hikes, though some aspects have reduced concerns among markets participants of imminent overheating in the economy, allowing investors to breathe a sigh of relief: (1) Weak wage inflation in reading in February, (2) a 1.8% yoy reading in core inflation, and (3) a potential trade war drama. Our base case calls for the Fed to hike 3 times and we still do not exclude a possible 4th hike in 2018.

Andbank's market sentiment

Recent earnings momentum has been driven almost entirely by tax cuts, with relatively little upward drift in EBIT/EBITDA. Earnings increases from tax cuts are of a much lower quality (all of the increase in EPS estimates is happening below the line). Thus the market will be less willing to pay high P/E ratios. Following the market correction, the market has de-rated on a PE basis, with its forward P/E now sitting below its 2017 average. Looking ahead, higher EPS and increasing capital spending should have positive effects on both top line growth and margins (via productivity). In January, the market was ignoring all this and simply trading in line with the EPS revisions. February was an abrupt adjustment in this regard, which we think makes sense and is why P/Es will not return to the highs. In other words, the P/E compression we have experienced is not completely due to higher interest rates and volatility, as many assumed in February.

Financial markets outlook

Equities – S&P: NEUTRAL (central point 2715). Exit point: 2985

Bonds – Govies: NEGATIVE (10Y UST target yield 3.2%)

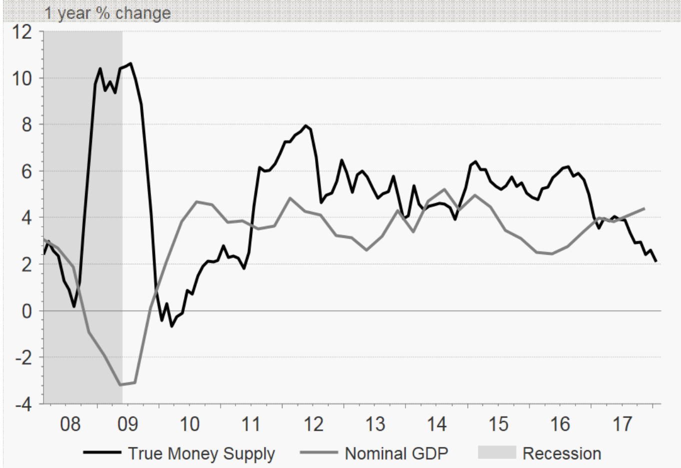
Credit – CDX IG : NEUTRAL (Target Spread 45)

Credit – ICDX HY: NEGATIVE (Target Spread 413)

Forex – CDX index: POSITIVE

US - True Money Supply vs Nominal GDP growth

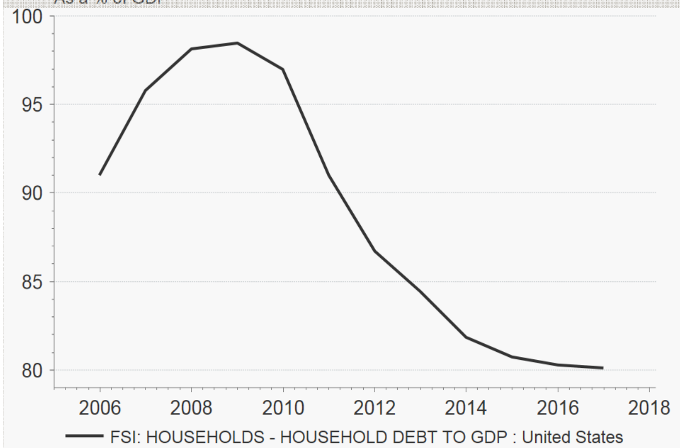
1 year % change



Fuente: Thomson Reuters Datastream / ANDBANK

US - HOUSEHOLD DEBT TO GDP

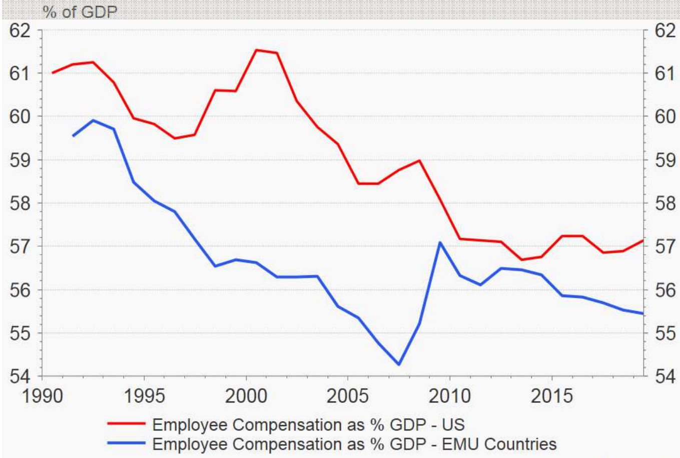
As a % of GDP



Fuente: Thomson Reuters Datastream / ANDBANK

WAGE SHARE (US vs EURO ZONE)

% of GDP



Fuente: Thomson Reuters Datastream / ANDBANK

EUROPE
Sentiment seems to have peaked

Soft data disappoints but still consistent with growth

Sentiment seems to have peaked both in the Eurozone and in the UK, in clear contrast with the spike in the US surveys. Though positive macro surprises have turned downwards, we do not consider it as a threat. PMI readings are still consistent with our growth projections. Growth remains solid and widespread.

CPI estimates from the ECB have been slightly cut down for 2019. Inflation should gradually trend higher during the year as growth continues to pick up.

ECB: A small step towards normalization

The ECB's March meeting removed the possibility of an increase in asset purchases (agreed unanimously). No further measures, such as interest rate hikes, were discussed. Our expectations regarding the normalization process remain unchanged. June seems the month for next steps to be announced. Our scenario is for QE to be maintained until December, while rate hikes are not foreseen until mid-2019. Draghi underlined two main risks for the economic outlook: protectionism and financial deregulation.

Politics: Italy Government, an open question

The elections in **Italy** resulted in an inconclusive outcome, though the message was pretty clear, with traditional parties miserably defeated while the anti-establishment ones beat the polls. For now, five scenarios could unfold: 1) A populist coalition between Five Star Movement + Northern League; 2) a Grand coalition of LN + FI + spin-off PD; 3) 5M+spin-off PD; 4) No agreement is reached to form a coalition and a Presidential government is declared; or 5) new elections are called. A Presidential government option could be the central scenario. But this might be short-lived and not lead to the much needed reforms. On the other hand, a coalition between 5 stars and LN, though complicated (different agendas), has seen its chances increased. This latter would be the worst outcome for markets: it would be financially challenging (goals of lowering taxes while implementing a universal minimum income) and could reverse some of the structural reforms implemented (e.g. the pension reform). 23rd of March as a key date: should the 5 stars and LN agree on the Parliament speakers. Regarding the **Franco-German axis**, the Eurozone-reforms are now expected to be pushed forward, likely having to wait until June's summit. As for **Brexit**, an agreement regarding the transitional period, extending for 21 months till the end of 2020, has just been reached. During this period, the UK will not take part in any decision and will be bound to the EU rules in order to enjoy all the advantages of being part of the EU. Differences remain in various areas: the Irish border, the financial services, the customs union, the role of the European Court of Justice, etc. "Nothing is agreed until everything is agreed".

Financial markets outlook

Equities – Stoxx Europe: POSITIVE (central point 411). Exit 439

Equities - Euro Stoxx: POSITIVE (central point 413). Exit 454

Bonds – Core governments: NEGATIVE (Bund target yield 0.90%)

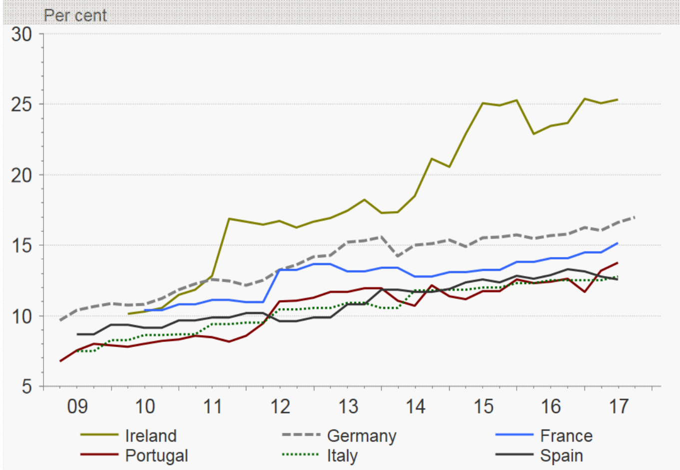
Bonds – Peripheral : NEGATIVE (SP 1.65%, IT 2.1%, PO 2.2%)

Credit – Itraxx Europe (IG) : NEGATIVE (Target Spread 75)

Credit – Itraxx Europe (HY : NEUT-NEGAT (Target Spread 300)

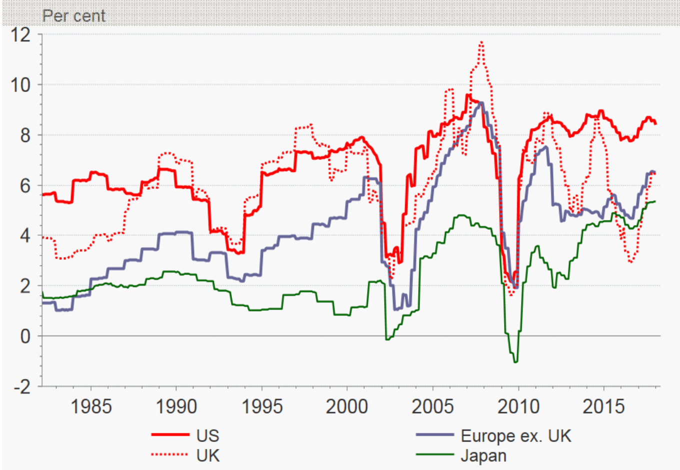
Forex – EUR/USD: Short-Term POSIT (1.26). LT NEGAT (1.15)

Euro area banks tier 1 capital ratio



Fuente: Thomson Reuters Datastream / ANDBANK

Net profit margins



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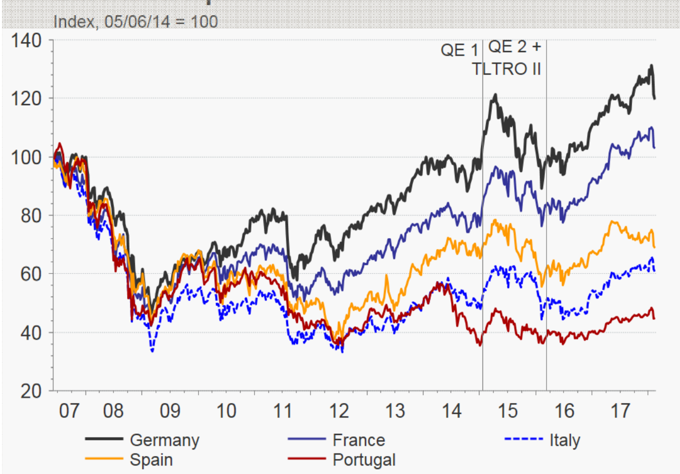
Euro area equities



Fuente: Thomson Reuters Datastream / ANDBANK

SPAIN
Growth: Stronger than anticipated

Economy & Rating Agencies: Outlook

S&P upgraded Spain's sovereign credit rating to "A-" from "BBB+" and assigned the country a positive outlook, citing its "overall economic and budgetary performance". It said it expected that Spain's GDP will expand faster than the Eurozone average over 2018-2021 and that the government's budget deficit will continue to shrink. The set of data released during the first months of 2018 confirm that the fears of headwinds for the Spanish economy following the Catalonian political situation were unfounded. Activity data improves on all fronts: Retail Sales in January grew at +2.5% (YoY). Sentiment indicators also improved, with February's Composite PMI index fixed at 57. The Services PMI rose to 57.1 and the Manufacturing PMI Index rose to 56. Industrial output growth was fixed at 4% yoy in January, with the new orders component increasing to 56.7, the highest reading since January 2017. But there are other signs of a general improvement. One of the best indicators of future growth in Spain is the Real Estate sector, and according to the Spanish Statistics Bureau (INE), housing transactions in Spain reached 47.289 units in January 2018 (+46.8% mom or +23.1% yoy,). According to INE, housing prices were up by 7.2% yoy in 4Q 2017. With both surveys and data pointing to much better 1Q GDP growth for the Spanish economy, we make a slight adjustment to our 2018 GDP Growth target (we add another 10bp, to 2.6% FY2018). Our target range for the 2018 GDP remains stable at 2.4-2.7% since January. We prefer to wait until Rajoy's government passes the National General Budget in Congress to bring our GDP target to the upper band of our fundamental range.

National budget likely following Easter holidays

The Spanish government intends to pass the budget in the Council of Ministers and present it for a voting process in Congress in the first week of April. It expects that, given the inability to form a government in Catalonia, this could relax the Basque National Party's stance on the budget. In the meantime, the latest electoral polls clearly show that the ruling party (Rajoy's PP) is still losing ground and that this is being exploited by the other conservative party (Ciudadanos). The latest polls suggest that these two parties could win a clear majority in the next elections, making it easy to introduce structural reforms in the future.

Market Sentiment

Final 2017 results 2017 have come in below their initial projections, as companies' earnings were hit hard by a stronger euro (as the latest Inditex report shows). Final 2017 EPS came in at €682.7 (well below the projected €712.2). Our starting point for estimating 2018 EPS is therefore now much lower, so we have cut our central target for 2018 EPS. Meanwhile, we have revised our 2018 sales growth forecast upward to reflect our new GDP target, while leaving margins stable vs last year. The recent recovery in macro data, particularly in housing transactions and prices, suggests that banks will continue to have a positive outlook for real estate disposals and collateral valuations, which should help them further reduce impairments on real estate in 2018.

Financial Market Outlook

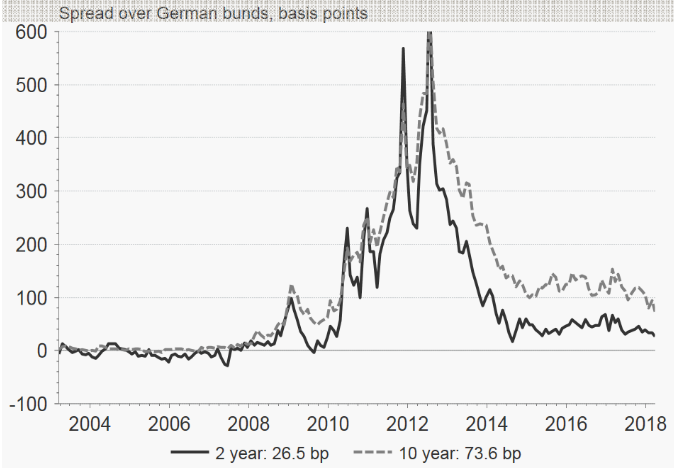
New! Equities – IBEX: POSITIVE (central point 10,729).

Bonds – Governments: NEGATIVE (BONO target yield 1.65%)

Credit – Invest. grade: NEGATIVE // High yield: NEGATIVE1

Spain government bond spreads

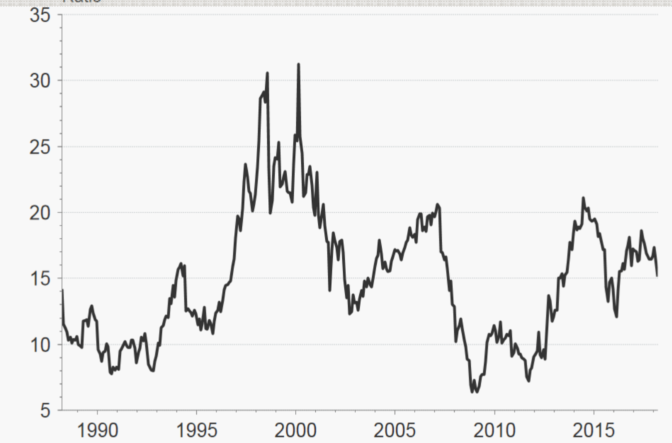
Spread over German bunds, basis points



Fuente: Thomson Reuters Datastream / ANDBANK

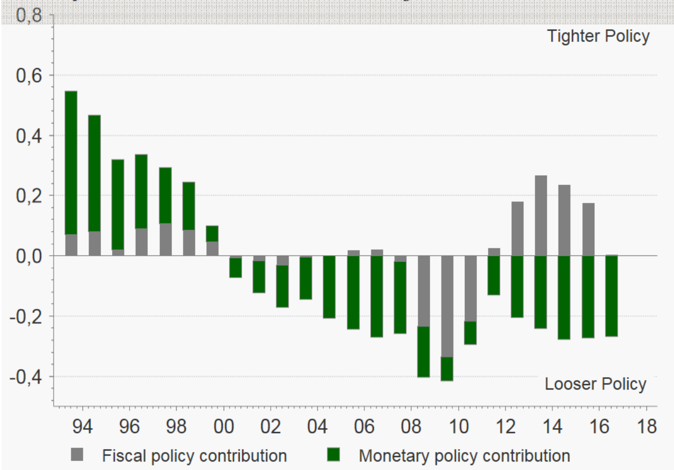
Spain IBEX 35 price / earnings

Ratio



Fuente: Thomson Reuters Datastream / ANDBANK

Spain Macroeconomic Policy Indicator



Fuente: Thomson Reuters Datastream / ANDBANK

ANDBANK Private Bankers

JAPAN
"Powerful easing should be maintained"

BoJ board members reaffirm current policy stance

The Summary of Opinions of the March 8-9 meeting showed discussions on the economy remained largely optimistic, even after factoring in risks related to recent market volatility and yen strength. CPI inflation is still likely to continue moving toward 2%. Annual wage negotiations are coming into focus but several comments reaffirmed the view that powerful easing should be maintained in order to achieve the 2% inflation target. Japan's parliament voted to approve Governor Kuroda for a second five-year term. Masazumi Wakatabe and Masayoshi Amamiya were also appointed as deputy governors. Kuroda's second term begins at the end of April. Recall Wakatabe is considered a vocal proponent of easing, while Amamiya has previously warned against a premature policy exit. Governor Kuroda's repeated commitment to ultra-loose monetary policy has seen the spread between the foreign and domestic 20Y rates shrink to 7.25 bp, the narrowest since December.

Trade minister calls for calm heads over US tariffs

Japan trade minister Hiroshige Seko told reporters there is a "high chance" that some Japanese steel and aluminum products will get exempted from new U.S. tariffs, as they are not quickly replaceable. According to the report, Japan exports about 2M tonnes of steel products a year to the US, which is only about 5% of Japan's total steel exports, but its steelmakers are deeply concerned that the US tariffs may prompt retaliation and trigger a trade war.

Majority of firms offer modest wage increases

A Nikkei survey found that about 70% of companies plan to lift monthly base pay this year, and of these, 74% plan bigger increases than last year. Yet while Prime Minister Abe has implored firms to raise wages by at least 3%, the survey showed that pay increases at 69% of the firms surveyed fell in the 2% range.

PM Abe cabinet approval rating plunges

The Kyodo opinion poll shows the approval rating for Prime Minister Shinzo Abe's Cabinet fell 9.4 pp to 38.7% amid a deepening scandal linked to cronyism allegations leveled against Abe over a state-owned land sale. A total of 66.1% said Abe bears responsibility for the document alteration, though 47.6% said Abe does not need to resign over the issue (43.8% of respondents said he should step down). Abe took responsibility in parliament for a loss of trust in his government but denied he or his wife had intervened in a land sale to a school operator with ties to his wife.

Foreign investor confidence in Japan waning

The Nikkei discussed concerns among international investors about the Japanese market as the current political turmoil evokes memories of scandals in the past that caused major shakeouts. The story noted the combination with the yen's recent appreciation and escalating trade frictions between the US and other big economies may explain Japan's recent underperformance. That is why we have cut our PE fw from 19 to 18.5x.

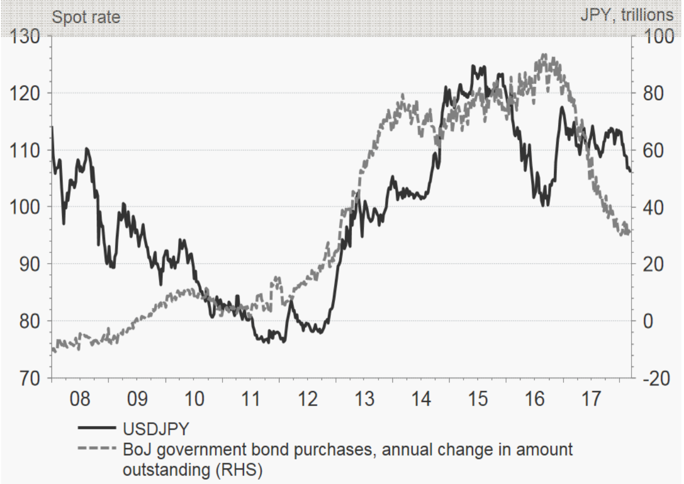
Financial markets outlook

NEW! Equities – Nikkei 225: POSITIVE. (central point 23.094)

Bonds – Govies: NEGATIVE

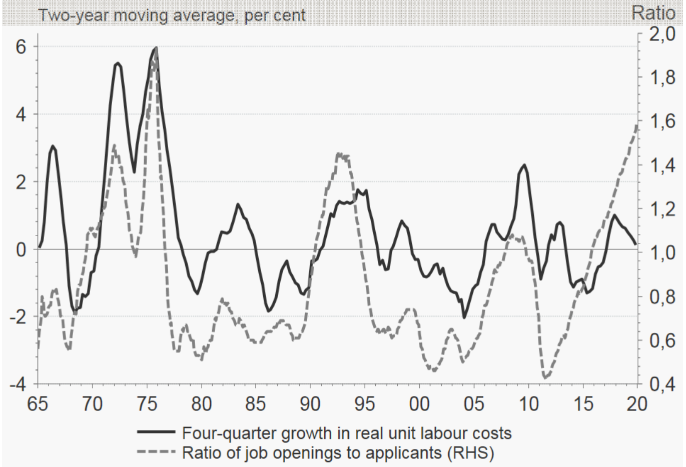
Forex new!– USDJPY: NEGATIVE. Mid-term target 111.2

Bank of Japan quantitative easing and USDJPY



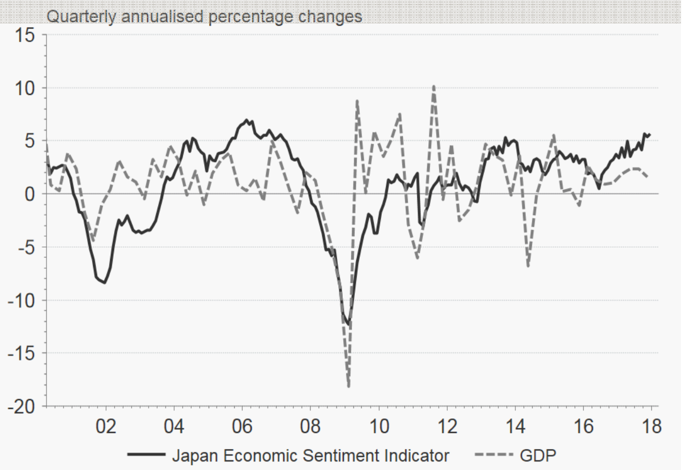
Fuente: Thomson Reuters Datastream / ANDBANK

Japan labour market tightness and wages



Fuente: Thomson Reuters Datastream / ANDBANK

Japan Economic Sentiment Indicator



Fuente: Thomson Reuters Datastream / ANDBANK

CHINA

About China's new economic team

Top economic team emphasizes continuity in domestic policy and capacity to project China's interests

(1) New vice-premier Liu He has already taken over initiatives such as supply-side reform and financial de-risking. He will likely run the Financial Stability and Development Committee to oversee all financial regulators. **(2)** New Vice-president Wang Qishan, former chief of Xi's anti corruption campaign, will handle increasingly tense Sino-US economic relations. **(3)** The finance minister portfolio went to Liu Kun, mostly focused on subjects like promoting public private partnership programs, cutting fees and reforming government procurement. **(4)** At the People's Bank of China, Yi Gang is promoted to succeed Zhou Xiaochuan. Ph.D from the University of Illinois, he is probably the best suited candidate to communicate the PBOC's intentions to markets. The step looks like an appointment to cheer the market and sends a clear message that Xi respects professionalism, and that the direction of monetary policy will remain unchanged. Yi has effectively run the PBOC day-to-day and is fully signed up to policy priorities such as completing the process of liberalizing the setting of interest rates and the currency exchange rate. He will take over a more powerful central bank, which recently secured the authority to draft key regulations for the banking and insurance sectors. This should minimize the chances of the central bank's policy getting thwarted by other regulatory bodies.

China faces challenge in reducing US trade surplus.

We are going to see a lot more protectionist theatrics coming out of the White House. In fact, Trump is seeking to impose tariffs on up to $60B of Chinese imports and will target the technology and telecommunications sectors. **The case for calm is easy to state:** (1) Trade deals don't determine trade balances and individual tariff hikes have little economic impact. (2) Metals tariffs were quite a bit tamer than the original threat, with automatic carve-outs for Canada and Mexico and the potential for other exemptions. (3) Chinese authorities are looking to maintain a strategic composure over President Trump's trade moves. **Looking out on a longer time horizon**, however, there are issues that are worth vigilant attention: (1) The resignation of economic advisor Gary Cohn and the apparent ascendancy of the trade warrior faction and the national security team, added to the upcoming midterm Congressional elections, make it almost certain that we will see a further barrage of trade actions. (2) The main enacted policy (bigger deficits) will lead to a wider trade deficit. (3) One of the main events will be the renegotiation of Nafta. A more likely case is that Nafta renegotiation drags on inconclusively this year and is kicked into next year. A more dire possibility is that after months of inconclusive haggling, Trump formally withdraws from Nafta. This is unlikely, in our view, since it would lead to a fair amount of chaos in North American production chains, and the economic effects could be material. China faces an uphill climb to cut its trade deficit with the US by $100B, a key obstacle being that its current account surplus has already fallen to 2.4% of GDP from 9.9% in 2007.

Financial markets outlook

Equities – SHANGHAI index: POSITIVE (central point 3.672)

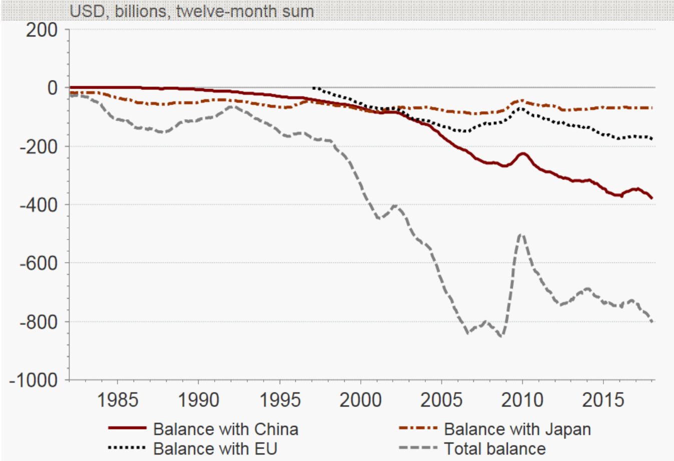
Equities – SHENZHEN Index: POSITIVE (central point 1.930)

Bonds – Govies: POSITIVE (target yield 3.25%)

Forex – CNY/USD: NEUTRAL (mid-term target 6.40)

US visible trade balance

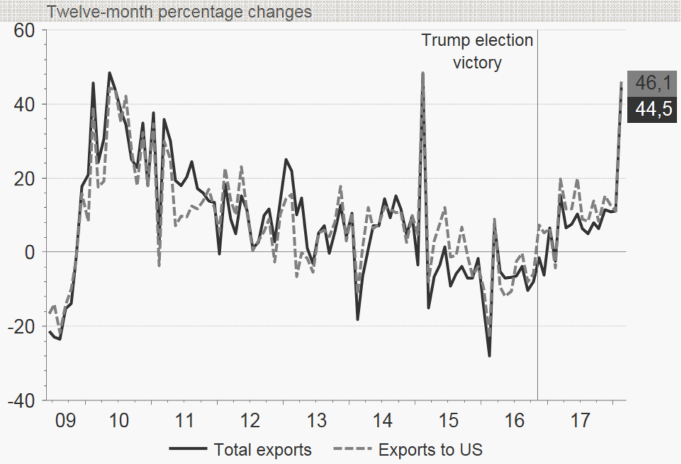
USD, billions, twelve-month sum



Fuente: Thomson Reuters Datastream / ANDBANK

China exports to US

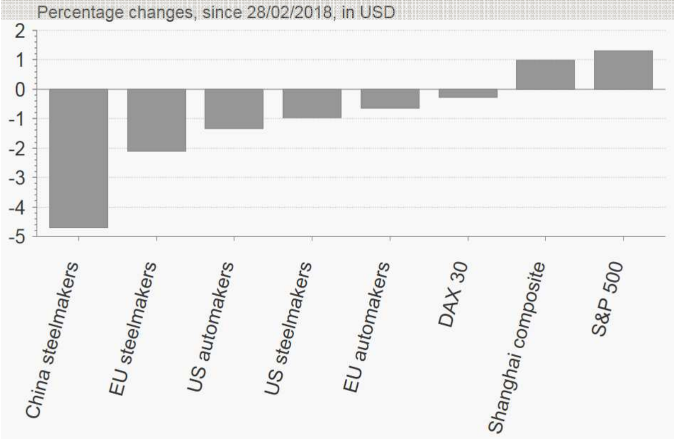
Twelve-month percentage changes



Fuente: Thomson Reuters Datastream / ANDBANK

Equity performance following tariff announcement

Percentage changes, since 28/02/2018, in USD



Fuente: Thomson Reuters Datastream / ANDBANK

INDIA

Is India becoming the next China?

Developments in India will not have the same impact on global growth as China did but the outlook is bright.

Labor and land reforms, added to the reforms implemented so far, could place India among the 25% of top performers at its stage of development, and more importantly, leave India on course to outperform the rest of the emerging world over the coming decade. India already contributes 10% of global growth, and this could rise to around 20% over the coming decade. That said, it will be difficult for India to match the former growth rates of China. India's jump up the World Bank's "ease of doing business" rankings, from 142nd in 2015 to 100th in 2018, shows that progress is being made. But this has so far had little macro impact: manufacturing's share in GDP remains a disappointing 16%, far below the government's target of 25%. Additionally, India's share of global merchandise exports languishes below 2%. Although India's exports as a share of GDP are already equivalent to China's at this stage, they are unlikely to rise to the levels that China's did in its boom years, given that India is already integrated into the global economy and reforms to boost manufacturing competitiveness are lacking.

India's achievable rate of growth could be lifted to 7%.

India's economic prospects over the near term are relatively upbeat: Household consumption appears to have recovered impressively since demonetization and government consumption should also support growth, particularly as fiscal policy is set to be loosened ahead of next year's general election. Beyond the near term, however, India's growth prospects are dependent on the government's ability to push ahead with structural reform. In particular, measures to boost manufacturing, labor and land reforms. While there have been some notable successes in the reform agenda (such as the introduction of the Goods and Services Tax, the new code of insolvency and the bank recapitalization program) that will help to boost India's productive potential over the longer term, the Modi government hasn't shown much willingness to push ahead with measures to tackle labor and land constraints (mostly due to political difficulties in implementing reforms in these areas). The lack of reform in these areas may ultimately prevent India from matching the growth rates of the very best performing emerging economies in recent decades.

Yet the macro data do not tell the full story

India is a large country, and some states and sectors are doing better than others. (1) The push to localize production is taking off, (2) The GST is positive for organized manufacturers, (3) Foreign investments have gone from 1.1% to 1.7% of GDP and are critical to raise standards further down the value chain, (4) Infrastructure has improved enormously, yet there is still much to do, (5) Regulations are a burden though less troublesome than they were, (6) Private land is still difficult to buy, but industrial land is readily available in state industrial parks.

That said, the recent turmoil seen in some of the public banks will affect the credit and investment cycle, which will be delayed for some time. We cut the PE forward from 21.9x to 21x (current PE ltm 21.5)

Financial markets outlook

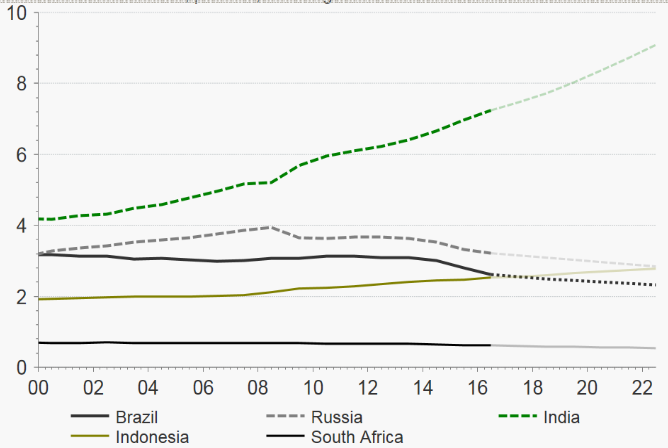
Equities **NEW!** – SENSEX Index: POSITIVE (central point 36,000)

Bonds – Govies: POSITIVE (target yield 5.90%)

Bonds – Corporates: POSITIVE

Emerging market GDP (PPP)

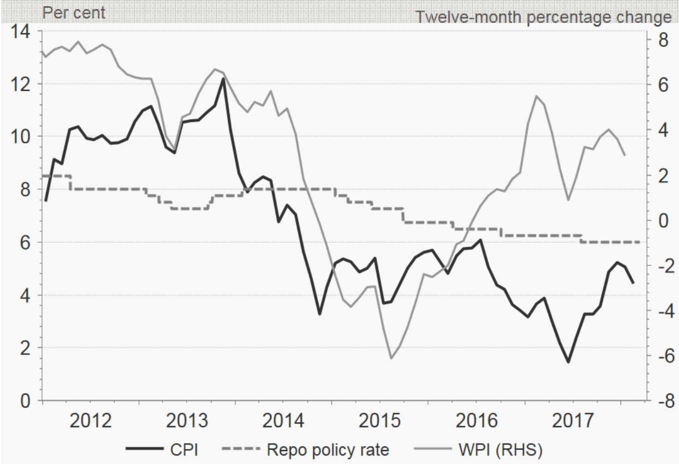
Share of world total, per cent, including IMF forecast



Fuente: Thomson Reuters Datastream / ANDBANK

India inflation and policy rate

Per cent / Twelve-month percentage change



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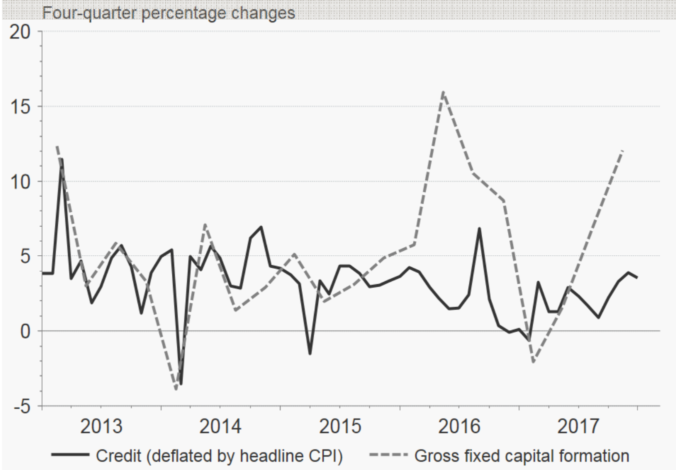
India real credit and GFCF

Four-quarter percentage changes



Fuente: Thomson Reuters Datastream / ANDBANK

MACROECONOMY

MEXICO
Politics & NAFTA still weigh

Politics & NAFTA

The latest polls put leftist candidate Lopez Obrador 10 points above his closest competitor, Anaya (PAN-PRD, coalition). Former Finance Minister, Meade, President Peña Nieto's party candidate, fell dramatically to around 20% of the preferences. The first presidential debate will be televised on April 22th.

NAFTA negotiations (7th round) showed that only 6 out of 30 chapters of the agreement are closed as of now, with none of them being critical (related to the most politicized issues, such as dispute resolution or rules of origin). Pessimism returned as Donald Trump's anti-Nafta and protectionism measures reappeared.

Economic outlook & Central Bank policy

2017 GDP was revised up but still remained at a poor 2.3% yoy pace. Purchase expenditure continued to slow down in January. Industrial Production rebounded in December and kept up the pace in January, but its YoY growth remains negative (-0.3%). Despite this meagre scenario, Banxico hiked its monetary policy rate again, to 7.50%, at its February meeting. Banxico's statement showed that the monetary policy committee, which has a new governor in Alejandro Díaz de Leon, is worried about inflation and took a hawkish stance. Banxico expects a downward path in prices for 2018, fixing its forecasts for the general CPI around the 4%-4.5% mark (and will approach its long-run goal of 3% +/-1% in 2019). The Mexican central bank still predicts an uncertain economic context due to NAFTA renegotiation and presidential elections.

Market sentiment

Equities: Investors' consensus is to UW this market. Lack of acceleration in the growth rate, Nafta and elections are risk-off events in 1H, leading to MXN volatility. We forecast valuations will remain moderate (we cut our 2018 PE target to 16.8 from 17), which, added to our realistic earnings forecasts (+5.7% in EPS), make us fix our fundamental target in the 46,000-53,000 area, with a central target at the 48,400 point. Key drivers will be: (i) Reforms and political developments; (ii) Global liquidity evolution and the pace of Fed rate adjustments; and (iii) LatAm GDP growth acceleration. ***Fixed Income:*** Even assuming that NAFTA remains fairly stable, we still expect some pressure as a result of the political context and the Fed's normalization path. For USD Mexican bonds, the spread could also be around 130-150 bp and be fixed in the 4.50% area (4.20% current level), although if NAFTA suffers big and unexpected changes, a sell-off in Mexican bonds is warranted, affected by the likely economic impact and a possible downgrade.

FX: NAFTA negotiations volatility has been postponed to 2019 and presidential elections will face their most algid moment around May or June. Now, the Mexican currency has been trading in a 18.50-18.90 range. In 2018, MXN's performance will depend on the outcome of the July presidential elections. In the best scenario, a 18-18.50 range could be expected. If there are unexpected changes in NAFTA, the maximum level (around 22) may be reached in January 2017.

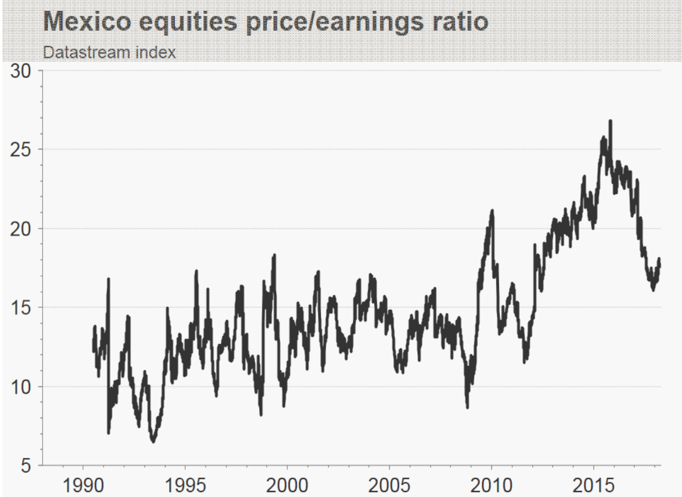
Financial markets outlook

NEW! Equities – Mex IPC: CAUTIOUS (Target 48,400). Exit 51,500

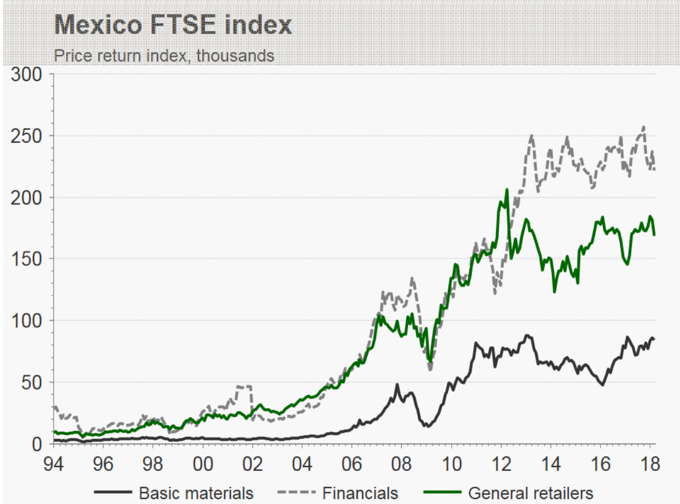
Bonds – Govies Local: NEUTRAL (target spread 475, yield 8.0%)

Bonds - Govies USD: NEGATIVE (target spread 140, yield 4.65%)

Fx – MXN/USD: NEUTRAL (mid-term target 18.80)



Fuente: Thomson Reuters Datastream / ANDBANK



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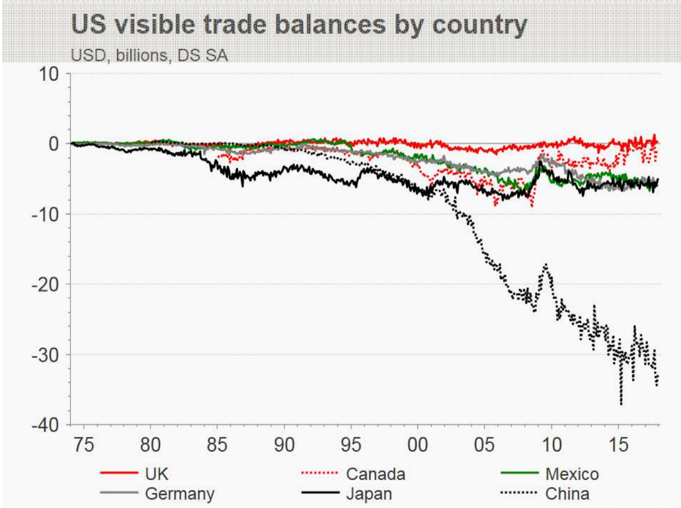


Fuente: Thomson Reuters Datastream / ANDBANK

BRAZIL
Looser Selic rate amidst recovery

Elections: No relevant developments in the past month

The month was short on political headlines regarding this year's presidential elections. Former president Lula is still appealing to superior instances on the judiciary to avoid prison, but with clearly less chance of success now. The remaining pool of candidates are working to consolidate their candidatures with the local players. April 7th is the deadline for current ministers and members of the executive to leave their mandates if they are to fight the elections. Despite his huge unpopularity, president Michel Temer is willing to seek reelection, according to local news. This move could be seen as a means to later capitalize the stronger center-right candidate, as the polls start to get more relevant. Also, the federal intervention on the state of Rio de Janeiro (which also halted the social security reform) is seen as a way to approach the public security case, although little practical effect has been seen so far. The main event was the assassination of a city council member from the left-wing party PSOL in Rio, which brought several people out in protests against the intervention itself.

Monetary policy: Ending the cycle (part II)

Inflation readings are still positively surprising the market and the Central Bank. The latest IPCA came in at 0.32% m/m in February, with the main and core prices declining. Energy and fuels were the main drivers. The Central Bank still has a 4.20% forecast for the IPCA this year, whereas the median market projection now stands at 3.63%. Interesting to highlight that the worst projection for the IPCA for this year is 4.3%, already below the 4.5% central target. Therefore, we could expect a further 25 bp cut to the policy rate at the next meeting this week, bringing it to a new historical low of 6.50%.

Economic activity: good signs ahead

Leading indicators are showing an expansion on several fronts of the economy. The Markit PMI Composite rose to 52.7 points in February, with balanced gains on both the industrial and service readings. In the agro sector, the IBGE (national statistics institute) expects another great year for grain crops, at 227 million tons. The Central Bank's activity index (IBC-Br) came in at -0.56%, better than market expectation of -0.80%. Good news on the Central Government tax revenues in January, reaching BRL 155 billion, in the best month since 2014.

Market sentiment

Equities: NEGATIVE. Our target for the Ibovespa is 82,000 points. Exit point at 86,100. The economic recovery and the lower interest rates should boost companies' results. However, a lot of that is already priced in by the equity market. ***Government Bonds***: NEUTRAL. Long term public debt dynamics will be dependent on reforms, and thus on elections. In the short term, bond yields will likely remain stable. Market expectation for the Selic rate has moved down to 6.50% per annum. That's pretty much in line with our view. Long term real interest rate, NTN-B 2026, is currently at 4.65% p.a. (our target for Dec/18: 4.55% p.a.).

Financial markets

Equities – IBOVESPA: NEGATIVE (Target 82,000). Exit 86.100

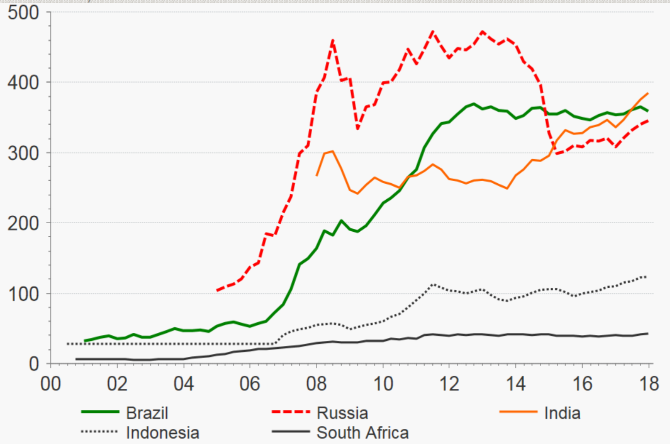
Bonds – Gov. Local: POSIT (target yield 9.50% - real yield 4.55%)

Bonds – Gov. USD: NEGATIVE (target yield 5.35%. Spread 210bp)

Fx – BRL/USD: NEUTRAL (mid-term target 3.20)

Emerging market official reserves

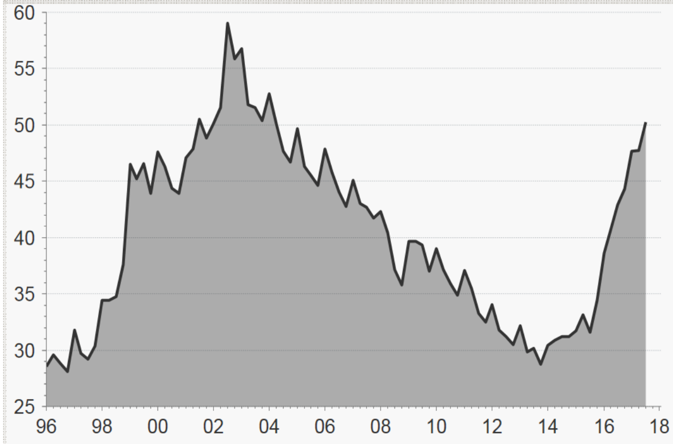
USD, billions



Fuente: Thomson Reuters Datastream / ANDBANK

Brazil government debt

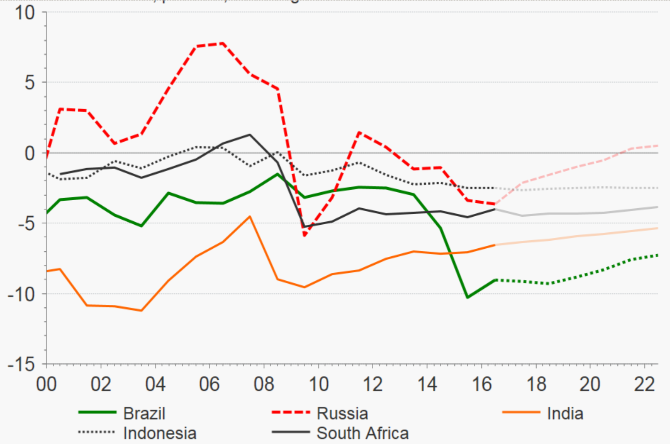
Per cent of GDP



Fuente: Thomson Reuters Datastream / ANDBANK

Emerging market government budget balances

Share of GDP, per cent, including IMF forecast



Fuente: Thomson Reuters Datastream / ANDBANK

ARGENTINA
No more bonds in USD!

Latest news: Funding program, wage negotiations, etc.

Change in inflation targets, though announced in late December, had a big effect on all Argentinean Markets and still adds uncertainty as to how the Central Bank will act going forward. Next policy decision is on 27th February.

Financing Program: In just 2 months the government managed to cover 42% of its 2018 financing needs and 75% of USD issuances are already covered. On March 13th Finance Minister, Luis Caputo, announced Argentina will not sell any adiotional foreign bonds in 2018. After USD 9B sale in January, the government now plans to fund fiscal needs with local issuances.

Wage negotiations: The next few weeks will be key, as wage negotiations with several unions are taking place. Usually, these start-of-the-year negotiations are the anchor for inflation expectations for the rest of the year. So far, the negotiations have been successful, with 15% increase agreements with commerce and transport unions.

Reforms tracker

Tax Reform: DONE (Dec 28th). Tax liability Law: DONE (Jan 2nd). Pension Reform: DONE (Dec 19th). Labor Reform: PENDING. The government is negotiating with the main unions to reach an agreement. Government´s strategy changed and has been decided trying to pass the law partially accelerating some parts of the law in which there is consensus. Capital Markets Reform: PENDING. The objective is to promote tools to facilitate financing for SME´s.

Macro & Fiscal: We cut our GDP growth target to 2.8%

Economic Activity: Argentine economy grew 0.6% MoM in December according to EMAE proxy for GDP growth, closing 2017 with 2.80% growth in real terms. Economic growth kept expanding across sectors, with 13 out of 15 posting gains. However, in the last months the country experienced a big drought, which impacted grain production (i.e., according to BCR, soybean harvest estimations where revised down almost 15%). This, added to the fact that real wage growth will be lower than expected, makes us lower our 2018 target real GDP growth from 3.1% to 2.8%.

Primary fiscal deficit closed 2017 at 3.9% (better than the 4.2% official target and 4.3% posted in 2016). If we add financial costs, the overall Fiscal Deficit for 2017 reached 6.1%. For the first time since 2003, Tax Income grew at a higher rate than Tax Expenditures. This is a big change in Argentina's fiscal trajectory. Looking to 2018, due to the outperformance in 2017, the government pre-paid the energy bill for Q1 2018 in order to alleviate this year's efforts to reach the target. Considering the measures already announced by the government (further cuts to subsidies, pension adjustments, etc.), we think the 3.2% primary fiscal deficit target for 2018 will be met. So far, until February 2018 the primary deficit amounted to 0.10% of GDP vs 0.60% budget. The government's focus seems to have changed, reinforcing fiscal consolidation and loosening inflation control.

Financial Market Targets

Bonds – 10YGov USD: POSITIVE. Target yield 6.25%, spread 300

Fx –USD-ARS: NEGATIVE (mid-term target 22)

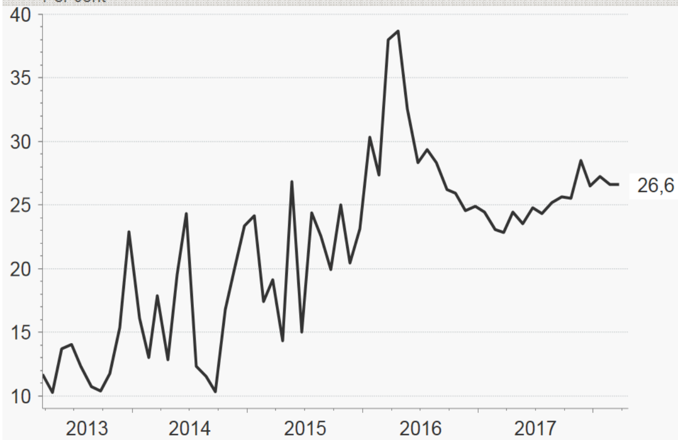
USDARS exchange rate

Spot rate

Fuente: Thomson Reuters Datastream / ANDBANK

Argentina 3-month interbank rate

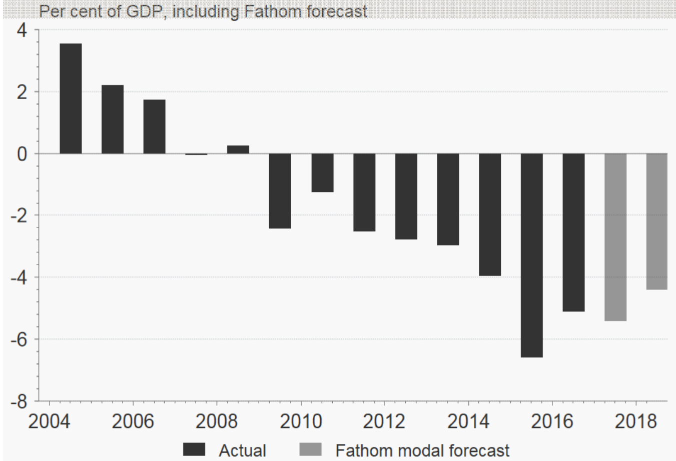
Per cent



Fuente: Thomson Reuters Datastream / ANDBANK

Argentina budget balance

Per cent of GDP, including Fathom forecast



Fuente: Thomson Reuters Datastream / ANDBANK

GLOBAL EQUITY INDICES

Fundamental assessment

Index	Sales per Share 2017	Net Margin 2017	Andbank's Sales growth 2018	Andbank's Net Margin 2018	EPS 2018	EPS Growth 2018	Current PE with EPS 2017	Current PE Fw EPS 2018	PE estimate at Dec 18 EPS 2018	INDEX CURRENT PRICE	2018 Central Point Fundam range	2018 E[Perf] to Centr. Point	2018 Exit Point
USA S&P 500	1.232	10,8%	5,6%	12,17%	158,3	18,8%	19,37	16,31	17,15	2.582	2.715	**5,2%**	2.987
Europe - Stoxx Europe 600	298	8,1%	5,2%	8,19%	25,7	6,6%	15,31	14,36	16,00	368	411	**11,4%**	439
Euro Zone - Euro Stoxx	349	7,1%	5,2%	7,15%	26,2	6,4%	15,09	14,18	15,75	372	413	**11,0%**	454
Spain IBEX 35	7.461	9,2%	5,0%	9,13%	715	4,8%	13,99	13,36	15,00	9.553	10.729	**12,3%**	11.802
Mexico IPC GRAL	33.496	8,1%	7,2%	8,03%	2.881	5,7%	16,81	15,90	17,00	45.827	48.983	**6,9%**	52.167
Brazil BOVESPA	52.724	9,9%	7,2%	10,26%	5.798	11,6%	16,29	14,60	14,15	84.666	82.008	**-3,1%**	86.108
Japan NIKKEI 225	20.076	5,8%	5,1%	5,92%	1.248	6,6%	18,27	17,13	18,50	21.389	23.094	**8,0%**	25.403
China SSE Comp.	2.642	8,7%	7,1%	8,77%	248	7,5%	13,58	12,64	14,80	3.136	3.672	**17,1%**	4.039
China Shenzhen Comp	902	8,5%	7,3%	8,67%	84	9,3%	24,00	21,96	23,00	1.842	1.930	**4,7%**	2.123
India SENSEX	14.218	10,8%	9,2%	11,06%	1.717	12,1%	21,71	19,35	21,00	33.238	36.063	**8,5%**	39.669
MSCI EM ASIA (MXMS)	425	9,4%	6,8%	9,59%	44	8,8%	14,75	13,56	14,40	590	627	**6,2%**	690

UPWARD REVISION | DOWNWARD REVISION

ANDBANK ESTIMATES

GLOBAL EQUITY INDICES: RISK-OFF PROBABILITY

Tactical assessment

Andbank GEM Composite Indicator: We remain in an area of neutrality with a sell bias.
Our broad index has moved from -3.3 last month to -1 (in a -10/+10 range), settling in an area that suggests that the equity market is no longer overbought and thus, the risk of a sustained and justified sell-off is now low.

Sentiment: 1) The forward 12m P/E ratio of SPX remains at a low of 17.15, still above its 10-year average (14.3), but has tumbled dramatically from January. 2) More than half of NYSE stocks (54% of firms) are being traded above their 200-day moving average, slightly above last month's figure (53%). The sentiment metrics are less stressed now relative to last month.

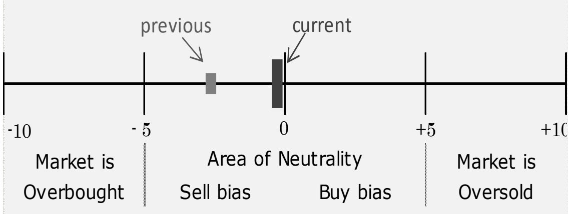
Flows: US Equity ETFs attracted more than $18.8 Bn in the third week of March, being the 4th straight week of inflows. S&P 500 ETFs posted the biggest inflows, thanks to the market upside movement after February's correction.

Speculators' Positioning: After the market falls seen in February, speculators adopted a more defensive stance in March.

Risk Composite Indicator (Breakdown)

	Previous Month	Current Month
Buy signals	3	5
Positive Bias	1	1
Neutral	5	5
Negative Bias	2	5
Sell signals	10	5
FINAL VALUATION	-3,6	-1,0

Risk Composite Indicator



TECHNICAL ANALISYS

Trending scenario (1month). Supports & resistances (1 & 3 months)

S&P: SIDEWAYS-BULLISH
Supports 1&3 month at 2,532. Resistance 1&3 month at 2,872/3,000.

STOXX600: SIDEWAYS
Supports 1&3 month 365. Resistance 1&3 month at 388/415

IBEX: SIDEWAYS-BEARISH (1m) // SIDEWAYS (3m)
Supports 1&3 month at 9,360/9,236. Resistance 1&3 month at 10,211/10,643

€/$: SIDEWAYS-BEARISH (1m) // BEARISH (3m)
Supports 1&3 month at 1.20/1.17. Resistance 1&3 month at 1,266

Oil: SIDEWAYS (1m) // SIDEWAYS-BULLISH (3m)
Supports 1&3 month at 58 / 55.82. Resistance 1&3 month at 63.4./74.9

Gold: SIDEWAYS-BEARISH
Supports 1&3 month at 1,295/1,257. Resistance 1&3 months at 1,374/1,391

US Treasury: SIDEWAYS (price perspective)
Supports 1&3 month at 2.65%. Resist. 1&3 months at 3.02%

DEVELOPED MARKETS

Fundamental assessment

US Treasury: Floor 2.07%. Fair value 3.25%. Ceiling 4%

Swap spread: The swap spread rose to +3bps (from -3bps last month). For this spread to normalize at +13bps, with the swap rate anchored in the 2.2% area, the 10Y UST yield would have to move towards 2.07%.

Slope: The slope of the US yield curve flattened sharply this month to 56bps (from 70bps). With the short end normalizing towards 2.25% (today at 2.27%), to reach the 10Y average slope (of 175bps), the 10Y UST yield should move to 4%.

Real yield: A good entry point in the 10Y UST would be when real yield hits 1%. Given our CPI forecast of 2.2%, the UST yield would have to rise to 3.2% to become a “BUY”.

GER Bund: Floor 0.80%. Fair value 1.05%. Ceiling 2.4%

Swap spread: The swap spread ticked up to 49bps (from 48bps last month). For the swap spread to normalize at 35bps, with the swap rate anchored in the 1.40% area (today at 1.0%), the Bund yield would have to move towards 1.05% (entry point).

Slope: The slope of the EUR curve decreased to 116bps (from 125bps last month). If the short end “normalizes” in the -0.50% area (today at -0.64%), to reach the 10Y average yield curve slope (130bps), the Bund yield would have to move to 0.80%.

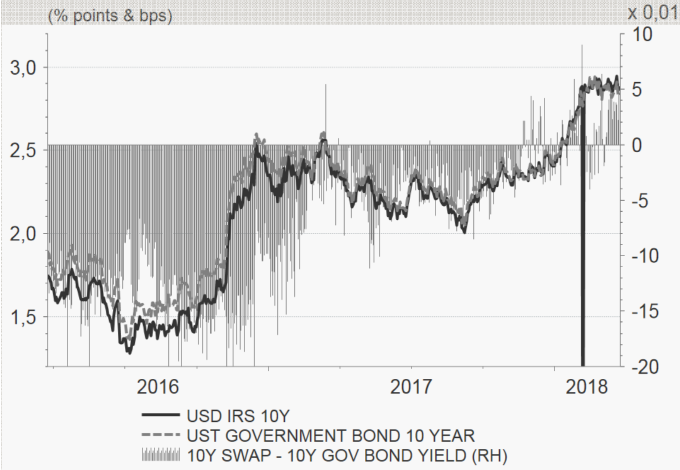
Real yield: A good entry point in the German Bund would be when real yield hits 1%. Given our CPI forecast of 1.4%, the Bund yield would have to rise to 2.4% to become a “BUY".

UK Gilt: Fair value 2.3%. Ceiling 3.6%

Swap spread: We expect the swap rate to reach 2.5% and the swap spread to normalize at 15bps. The 10Y UK Gilt should go to 2.35%.
Slope: With 2Yr normalized at 1%, to reach the average slope at 1.61%, the 10Yr Gilt should go to 2.61%.
Real Yield: A 1% real yield means the 10Y gilt should be at 3.6%.

SWAP SPREAD USD

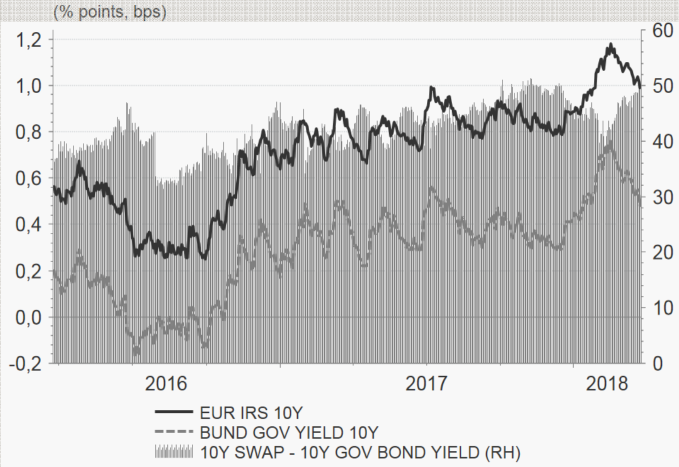
(% points & bps)



Fuente: Thomson Reuters Datastream / Fathom Consulting

SWAP SPREAD EUR

(% points, bps)



Fuente: Thomson Reuters Datastream / Fathom Consulting

EUROPEAN PERIPHERAL BONDS

Fundamental targets – 10Y yields

Spanish bono: Target yield at 1.65% (from 1.75%)
Italian bond BTPI: Target yield at 2.10%
Portuguese Gov bond: Target yield at 2.20%
Ireland Gov bond: Target yield at 1.10%
Greece Gov bond: Target yield at 4.50%

EMERGING MARKET BONDS

Fundamental targets

To date, our rule of thumb for EM bonds has been “buy” when the following two conditions are met: 1) the US Treasury real yield is at or above 1%; and 2) EM bond real yields are 1.5% above the UST real yield.
Assuming that the first condition is met, we should only buy those EM bonds offering a real yield of 2.50% or more

		10 Year Yield Nominal	CPI (y/y) Last reading	10 Year Yield Real	Projected change in Yield	Target Yield
EM ASIA	Indonesia	6,55%	3,25%	3,30%	-1,00%	5,55%
	India	7,34%	5,27%	2,07%	-0,75%	6,59%
	Philippines	5,92%	4,00%	1,92%	-0,50%	5,42%
	China	3,74%	1,80%	1,94%	-0,50%	3,24%
	Malaysia	3,94%	3,48%	0,46%	0,00%	3,94%
	Thailand	2,38%	0,72%	1,66%	-0,50%	1,88%
	Singapore	2,29%	0,36%	1,93%	-0,50%	1,79%
	South Korea	2,54%	1,03%	1,51%	-0,50%	2,04%
	Taiwan	1,00%	1,18%	-0,18%	1,00%	2,00%
EME	Turkey	12,31%	10,35%	1,96%	-0,50%	11,81%
	Russian Fed	7,04%	2,50%	4,54%	-1,00%	6,04%
LATAM	Brazil	9,48%	2,07%	7,41%	-1,00%	8,48%
	Mexico	7,37%	6,76%	0,61%	0,00%	7,37%
	Colombia	6,52%	3,68%	2,84%	-0,75%	5,77%
	Peru	5,11%	1,25%	3,86%	-1,00%	4,11%

ENERGY – OIL: US Crude production over the 10M bpd mark

Fundamental price for WTI at US$45pb. Sell above US$60. Buy below US$35

Short-term drivers

(Price Negative) – The Trump administration is looking to accelerate the leasing process for Alaska's Arctic National Wildlife Refuge. David Bernhardt, deputy secretary of the Department of Interior, said he wants to move very quickly on the leasing process, and wants environmental impact statements to be finished in a year. Environmental studies in Alaska are especially time consuming because federal law requires consultation with Native tribes and public meetings. A 1998 federal survey estimated between 4.3B-11.8B barrels of recoverable oil within ANWR. Annual US oil production stands at 3.5B barrels per year, so we are talking about 2.8 times the US oil annual production). If the exploitation lasts 20 years, we would be talking about 175-200 million barrels annually, prompting a 5%-6% increase in US oil production.

(Price Positive) – Traders are looking at Russia's comments that it remains committed to the OPEC-led production cuts. In that regard, Russian Energy Minister Alexander Novak said this weekend that his country is committed to seeing its pact with OPEC through to completion, and start discussions about a phase-out at the upcoming June meeting or extending the cuts into 2019. For its part, Saudi Arabia's national oil company sent out a news release saying it would continue to produce below the agreed production targets. The release said Saudi output would remain below 10M bpd, and exports below 7M bpd, despite capacity to pump as much as 12M bpd. This is in contrast to Iran, which has recently called to gradually lift output curbs.

(Price Positive) – Venezuelan crude exports to the US hit a 15-year low, following the country's recent decline in production. Total exports were down 43% y/y. Declining production (total crude output fell 10% m/m in February) and financial sanctions imposed by the US in August have continued to weigh on sales to US customers. These dynamics contribute to see lower US crude stocks, which is the data that speculators tend to focus on to fix oil prices.

(Price Positive) – Oil markets largely ignored Donald Trump's replacing Secretary of State Rex Tillerson with a more hawkish figure in Mike Pompeo. The failure to recertify the deal with Iran could lead other countries to reduce purchases of Iranian crude oil, which could in theory take a sizable number of barrels of oil off the market and tighten the global supply-demand balance. Trump's announcement had barely any impact on oil futures, with some market participants arguing that any loss of Iranian production would be made up from increased production from other OPEC members).

(Price Negative) – OPEC Secretary General Barkindo pointed out on Azeri TV that he is starting to see stability in the oil market, though he continues to look for ways to continue the cartel's cooperation with non-members.

(Price Negative) – The US Federal Energy Regulatory Commission said MLPs (master limited partnerships, which are interstate oil and gas pipeline operators) cannot recover the income tax allowance received under "cost of service" fees charged to shippers. This means that US shale producers will face lower transportation costs, which is equivalent to say that they are more profitable at current prices.

Long-term drivers

(-) Alternative energies picking up the baton: Producers must bear in mind that the value of their reserves is dictated by the amount of time for which they can pump before alternative energies render oil obsolete. In order to delay this deadline as long as possible, it is in producers' interests to keep the oil price low for as long as possible (keeping the opportunity cost of alternative energy sources as high as possible).

(-) Growing environmental problems will gradually tighten legislation and production levels: The value of producers' reserves depends on the amount of time they can pump at current levels before tougher environment-inspired regulations come in. With growing environmental problems that will likely continue to put big pressure on the market for fossil fuels over the coming decades, Riyadh's most serious risk is of sitting on a big chunk of "stranded reserves" that it can no longer extract and sell. Producers, therefore have a powerful incentive to monetize as much of their reserves as soon as possible.

(-) The re-entry of Iran is a game changer, equivalent to a structural change in the global energy market.

(-) OPEC producers are no longer able to fix prices: Back in the 1970s or the early 2000s, the exporters' cartel agreed to cut output and the approach worked well, as the principal competition was among oil producers (in particular between OPEC and non-OPEC producers). Today's biggest threat to any conventional oil producer comes from non-conventional producers and alternative energy sources. Energy cuts from conventional oil will easily be offset by a quick increase in shale oil production, meaning that OPEC producers are no longer able to fix prices.

(-) Shale producers to raise output considerably at $60 a barrel: The IEA has said that an oil price of $60 would be enough for many US shale companies to restart stalled production.

PRECIOUS METALS - GOLD

Fundamental price for gold at US$1,100/oz. Sell above US$1,300

Negative drivers

Gold in real terms: In real terms, the price of gold (calculated as the current nominal price divided by the US Implicit Price Deflator-Domestic as a proxy for the global deflator) declined to US$1,152 (from US$1,161 last month). In real terms, gold continues to trade well above its 20-year average of US$820. Given the global deflator (now at 1.1441), for the gold price to stay near its historical average in real terms, the nominal price (or equilibrium price) must remain near US$938.

Gold to Silver (Preference for Store of Value over Productive Assets): This ratio has ticked up to 80.7x (from 80.04x last month) and remains well above its 20-year average of 61.77, suggesting that gold is expensive (at least in terms of silver). For this ratio to reach its LT average, assuming that silver is well priced, then the gold price should go to US$1,009 oz.

Gold to Oil: This ratio down ticked to 21.3x (from 21.54x last month) still well above its 20-year average of 15.03. Considering our fundamental long-term target for oil of US$45pb (our central target) and that the utility of oil relative to that of gold will remain unchanged, the price of gold must approach US$676 for this ratio to remain near its LT average.

Gold to the DJI: This ratio (inverted) remained stable at 18.65x (from 18.7x last month), now below its LT average of 20.01x. Given our central point (target price) for the DJI of 25,000, the price of gold must approach US$1,249 for this ratio to remain near its LT average.

Speculative positioning: CFTC-CEI 100oz Active Future non-commercial contracts: Longs declined sharply to 234k (from 251k). Shorts fell moderately, to 66.5 (from 76.3 k) => The net position therefore decreased to +167.9k during the month (from +175k), suggesting that speculators' appetite for gold has declined markedly in the last two months and that gold is still relatively expensive.

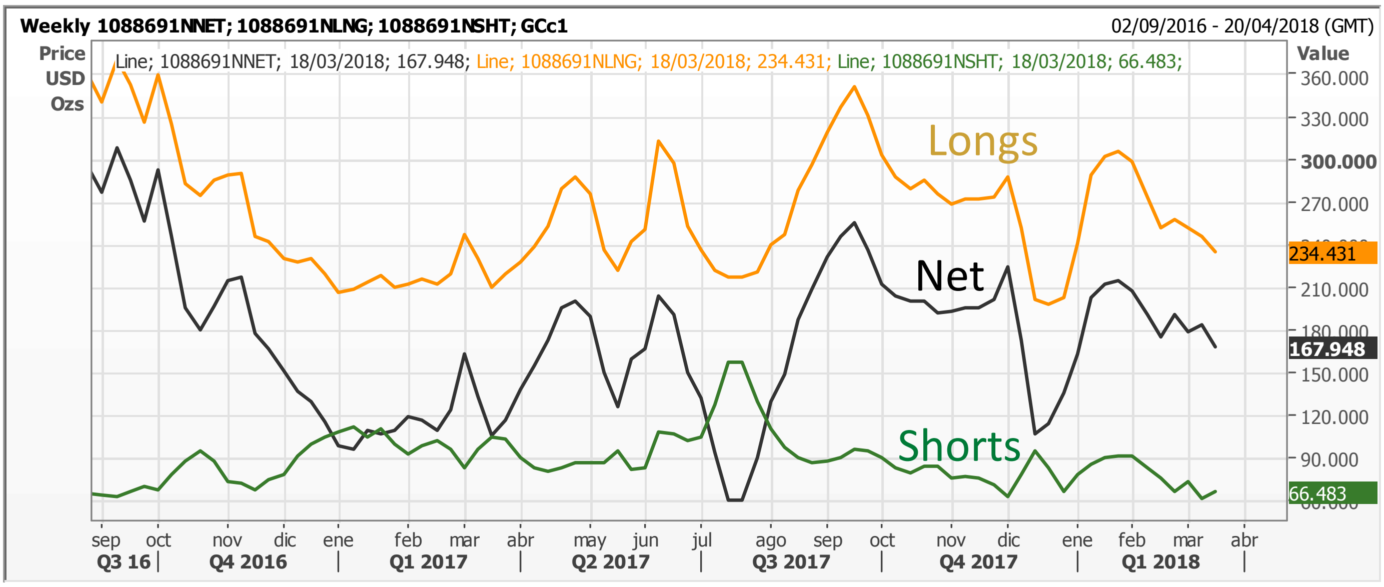
Financial liberalization in China. Higher "quotas" each month in the QFII program are widening the investment alternatives for Chinese investors (historically focused on gold).

Positive drivers

Gold to the S&P500: This ratio declined to 0.486x (from 0.492x last month) but is still well below its LT average of 0.59x. Given our target price (central point) for the S&P of $2,715, the price of gold must approach US$1,601 for this ratio to remain near its LT average.

Negative yields still make gold attractive. The disadvantage of gold compared to fixed-income instruments (gold does not offer a coupon) is now neutralized, with negative yields in a large number of global bonds, although the importance of this factor is diminishing as yields continue to rise.

Relative share of gold: The total value of gold in the world is circa US$6.9tn, a fairly small share (3.2%) of the total global cash market (212tn). The daily volume traded on the LBMA and other gold marketplaces is around US$173bn (just 0.08% of the total in the financial markets).



EXCHANGE RATES

Fundamental targets

EUR-USD: Technical Short-Term Target 1.26 // Fundamental mid-term target 1.15

Flows: Important short positions in USD persist (current future contracts positioning in USD is worth US$-25.87bn, see the table below) and this short USD market positioning is now much more significant from an statistical perspective (−2.18 sigmas below the average seen in the last 3 years) which makes the "USD Short" still the most crowded position globally. Current positioning contrasts with the +US$28.7bn net longs seen in September 2016. This figure suggests that the USD remains clearly oversold. Meanwhile, the EUR positioning represents the counterpart of what is seen in the USD, with a net long position of USD+21.87bn. This EUR positioning represents a +1.96 sigma overweight on a three-year z-score basis, suggesting that the EUR is overbought by historical standards.

Outlook: Our **technical analysis** within the Investment Committee indicated three very important things: (1) The EUR/USD faces a very important resistance at 1.26. (2) This resistance level should work well (as it did in the past). We therefore believe that the EUR will not cross this resistance. (3) After that, the EUR/USD will move back into the mid-term range; first towards 1.15 (this year, according to this analysis) and then towards lower levels. Our more **fundamental discussion** resulted in a broad conclusion: The USD offers value at current levels.

NEW! USD-JPY: Target 111.2; **EUR-JPY**: Target 127.8

Smart Estimates (those forecasters that historically have shown better results) fix the 2018 target for the USD/JPY at 1109 (above our forecast of 111.2). In our view, despite being cheap in REER vs the USD, several aspects suggest that JPY should not appreciate much further: (1) Political shocks in Europe now seem allayed, meaning that safehaven flows into Japan are less likely now. (2) Real yields are lower in JGBs, and with the 10Y JGB controlled at 0%, there is little prospect that Japanese real yields will rise; (3) We downplay the tapering option after the BoJ has reiterated that it intends to stick to its ultra-loose monetary policy, at least until it hits the 2% inflation target (unachievable in the short-term); (4) Meanwhile, the Fed is set to continue to hike rates, which in turn will push up real yields in USD; and (5) The prospect of the Fed shrinking its balance sheet (withdrawing liquidity) makes the USD more attractive (or the JPY less appealing).

GBP-USD: Target 1.35; **EUR-GBP**: Target ~0.85

USD-CHF: Target 0.99; **EUR-CHF:** Target 1.14

USD-MXN: Target 18.8; **EUR-MXN:** Target 21.6

USD-BRL: Target 3.20; **EUR-BRL:** Target 3.68

NEW! USD-ARS: Target 22

RUB: NEUTRAL-NEGATIVE

AUD: NEUTRAL

CAD: NEUTRAL-NEGATIVE

CNY: Target 6.40

Currency	Mkt Value of Net positions in the currency (Bn $)	Change vs last week in the currency (Bn $)	1-yr Max (Bn $)	1-yr Min (Bn $)	1-yr Avg (Bn $)	Current Z-score Z-score 3-yr
USD vs All	-25,87	-8,58	14,9	-25,9	-6,2	**-2,18**
USD vs G10	-23,05	-8,65	16,4	-23,1	-3,5	**-2,23**
EM	2,82	-0,08	3,9	0,8	2,7	**1,29**
EUR	21,87	-0,80	23,1	-2,9	12,4	**1,96**
JPY	-0,44	8,90	-0,4	-15,0	-9,5	**0,42**
GBP	3,02	2,32	3,0	-8,1	-1,3	**2,11**
CHF	-1,25	-0,38	0,2	-3,8	-1,6	**-0,30**
BRL	-0,42	-0,01	0,7	-0,4	0,2	**-0,72**
MXN	2,44	0,11	3,3	-0,3	2,0	**1,49**
RUB	0,79	-0,17	1,2	-0,3	0,5	**1,03**
AUD	0,62	0,68	6,1	-1,6	2,6	**-0,10**
CAD	-2,10	-3,60	6,1	-7,3	0,8	**-0,54**

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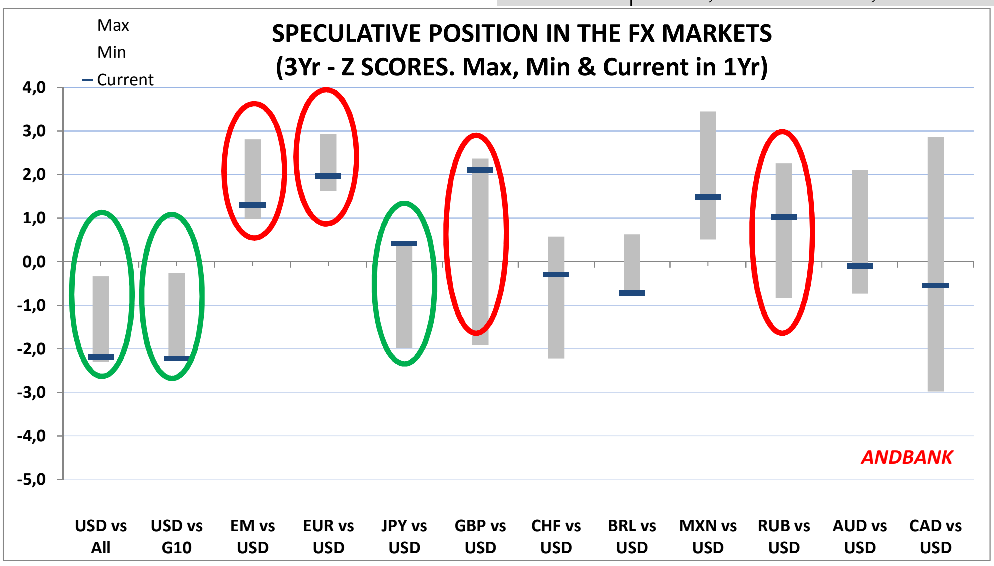

SUMMARY TABLE OF EXPECTED RETURNS

Asset Class	Indices	Performance MTD	Performance YTD	Current Price 03/04/2018	Central Point (Fundam range)	Exp. Perf. To Central Point
Equity	USA - S&P 500	-2,2%	-3,4%	2.582	2715	5,2%
	Europe - Stoxx Europe 600	0,0%	-4,7%	368	411	11,4%
	Euro Zone - Euro Stoxx	0,0%	-3,0%	372	413	11,0%
	SPAIN - IBEX 35	0,0%	-4,4%	9.555	10729	12,3%
	MEXICO - MXSE IPC	-0,6%	-7,1%	45.827	48983	6,9%
	BRAZIL - BOVESPA	-0,8%	10,8%	84.666	82008	-3,1%
	JAPAN - NIKKEI 225	-0,3%	-6,0%	21.389	23094	8,0%
	CHINA - SHANGHAI COMPOSITE	-0,2%	-4,4%	3.136	3672	17,1%
	CHINA - SHENZEN COMPOSITE	0,2%	-2,2%	1.842	1930	4,7%
	INDIA - SENSEX	0,9%	-2,4%	33.234	36063	8,5%
	MSCI EM ASIA (in USD)	0,0%	0,6%	590	627	6,2%
Fixed Income Core countries	US Treasury 10 year Govie	1,4%	-2,0%	2,73	3,25	-2,1%
	UK 10 year Gilt	1,5%	-1,0%	1,34	2,00	-4,3%
	German 10 year BUND	1,5%	-0,5%	0,49	0,90	-2,9%
	Japanese 10 year Govie	0,1%	0,1%	0,04	0,10	-0,5%
Fixed Income Peripheral	Spain - 10yr Gov bond	2,7%	3,6%	1,15	1,65	-3,2%
	Italy - 10yr Gov bond	2,5%	2,2%	1,78	2,10	-1,2%
	Portugal - 10yr Gov bond	2,5%	2,9%	1,60	2,20	-3,6%
	Ireland - 10yr Gov bond	1,4%	-1,8%	0,89	1,10	-1,0%
	Greece - 10yr Gov bond	0,1%	-0,5%	4,24	4,50	1,1%
Fixed Income Credit	Credit EUR IG-Itraxx Europe	-0,1%	-0,4%	60,31	75	-1,3%
	Credit EUR HY-Itraxx Xover	0,0%	-1,3%	283,14	300	0,3%
	Credit USD IG - CDX IG	-0,3%	0,1%	67,62	45	1,5%
	Credit USD HY - CDX HY	-0,5%	-0,3%	360,28	413	1,4%
Fixed Income EM Europe (Loc)	Turkey - 10yr Gov bond	-3,6%	-4,3%	12,28	13,00	6,5%
	Russia - 10yr Gov bond	0,5%	6,2%	7,04	6,70	9,8%
Fixed Income Asia (Local curncy)	Indonesia - 10yr Gov bond	0,5%	-1,0%	6,58	5,30	16,8%
	India - 10yr Gov bond	3,6%	1,3%	7,39	6,75	12,5%
	Philippines - 10yr Gov bond	0,5%	-4,9%	5,90	5,25	11,1%
	China - 10yr Gov bond	1,1%	1,9%	3,73	3,25	7,6%
	Malaysia - 10yr Gov bond	0,8%	0,9%	3,94	4,00	3,4%
	Thailand - 10yr Gov bond	-0,2%	-0,2%	2,38	1,85	6,6%
	Singapore - 10yr Gov bond	0,5%	-1,9%	2,28	1,57	8,0%
	South Korea - 10yr Gov bond	1,1%	-0,7%	2,55	2,00	6,9%
	Taiwan - 10yr Gov bond	0,4%	-0,1%	0,98	1,50	-3,2%
Fixed Income Latam	Mexico - 10yr Govie (Loc)	2,1%	4,6%	7,37	8,00	2,3%
	Mexico - 10yr Govie (usd)	0,6%	-2,0%	4,02	5,25	-5,8%
	Brazil - 10yr Govie (Loc)	0,7%	8,7%	9,48	9,50	9,3%
	Brazil - 10yr Govie (usd)	0,8%	-0,5%	4,97	5,35	1,9%
	Argentina - 10yr Govie (usd)	1,2%	-6,0%	6,42	6,25	7,8%
Commodities	Oil (WTI)	0,7%	4,3%	63,0	45,00	-28,6%
	GOLD	0,5%	3,0%	1.341,0	1.100	-18,0%
Fx	EURUSD (price of 1 EUR)	-0,8%	2,5%	1,230	1,15	-6,5%
	GBPUSD (price of 1 GBP)	1,1%	3,9%	1,40	1,35	-3,9%
	EURGBP (price of 1 EUR)	-1,9%	-1,4%	0,88	0,85	-2,8%
	USDCHF (price of 1 USD)	1,6%	-2,0%	0,96	0,99	3,4%
	EURCHF (price of 1 EUR)	0,7%	0,5%	1,18	1,14	-3,3%
	USDJPY (price of 1 USD)	-0,2%	-6,0%	105,88	111,20	5,0%
	EURJPY (price of 1 EUR)	-1,1%	-3,7%	130,24	127,88	-1,8%
	USDMXN (price of 1 USD)	-2,6%	-7,2%	18,24	18,80	3,1%
	EURMXN (price of 1 EUR)	-3,5%	-4,8%	22,44	21,62	-3,7%
	USDBRL (price of 1 USD)	3,1%	-0,1%	3,31	3,20	-3,3%
	EURBRL (price of 1 EUR)	2,2%	2,5%	4,07	3,68	-9,6%
	USDARS (price of 1 USD)	-0,9%	8,2%	20,11	22,00	9,4%
	CNY (price of 1 USD)	-0,5%	-3,5%	6,28	6,40	1,9%

** For Fixed Income instruments, the expected performance refers to a 12 month period*

STRATEGIC ASSET ALLOCATION & RISK TOLERANCE

Monthly asset & currency allocation proposal

	Conservative		Moderate		Balanced		Growth	
Asset Class	Strategic (%)	Tactical (%)	Strategic (%)	Tactical (%)	Strategic (%)	Tactical (%)	Strategic (%)	Tactical (%)
Money Market	**15,0**	**23,0**	**10,0**	**16,7**	**5,0**	**11,3**	**5,0**	**7,3**
Fixed Income Short-Term	**25,0**	**33,0**	**15,0**	**21,5**	**5,0**	**9,7**	**0,0**	**3,7**
Fixed Income (L.T) OECD	**30,0**	**18,0**	**20,0**	**12,0**	**15,0**	**9,0**	**5,0**	**3,0**
US Gov & Municipals & Agencies		9,0		6,0		4,5		1,5
EU Gov & Municipals & Agencies		1,8		1,2		0,9		0,3
European Peripheral Risk		7,2		4,8		3,6		1,2
Credit (OECD)	**20,0**	**16,0**	**20,0**	**16,0**	**15,0**	**12,0**	**5,0**	**4,0**
Investment Grade USD		8,0		8,0		6,0		2,0
High Yield Grade USD		3,2		3,2		2,4		0,8
Investment Grade EUR		3,2		3,2		2,4		0,8
High Yield Grade EUR		1,6		1,6		1,2		0,4
Fixed Income Emerging Markets	**5,0**	**5,5**	**7,5**	**8,3**	**10,0**	**11,0**	**15,0**	**16,5**
Latam Sovereign		1,4		2,1		2,8		4,1
Latam Credit		1,4		2,1		2,8		4,1
Asia Sovereign		1,4		2,1		2,8		4,1
Asia Credit		1,4		2,1		2,8		4,1
Equity OECD	**5,0**	**4,5**	**20,0**	**18,0**	**32,5**	**29,3**	**50,0**	**45,0**
US Equity		1,4		5,4		8,8		13,5
European Equity		2,3		9,0		14,6		22,5
Japan Equity		0,9		3,6		5,9		9,0
Equity Emerging	**0,0**	**0,0**	**5,0**	**5,5**	**10,0**	**11,0**	**10,0**	**11,0**
Asian Equity		0,0		3,9		7,7		7,7
Latam Equity		0,0		1,7		3,3		3,3
Commodities	**0,0**	**0,0**	**2,5**	**2,0**	**5,0**	**4,0**	**5,0**	**4,0**
Energy		0,0		0,4		0,8		0,8
Minerals & Metals		0,0		0,5		1,0		1,0
Precious		0,0		0,9		1,8		1,8
Agriculture		0,0		0,2		0,4		0,4
Alternative Investments	**0,0**	**0,0**	**0,0**	**0,0**	**2,5**	**2,8**	**5,0**	**5,5**
REITs		0,0		0,0		0,6		1,1
Alt.Energy (wind, solar, etc)		0,0		0,0		0,4		0,8
Market Neutral		0,0		0,0		1,1		2,2
Volatility		0,0		0,0		0,7		1,4

Currency Exposure (European investor perspective)				
EUR	91,1	84,0	78,4	71,9
USD	8,9	16,0	21,6	28,1

Strategic and tactical asset allocation are investment strategies that aim to balance risk and reward by apportioning a portfolio's assets according to an individual's risk tolerance, investment horizon, and our own projected performance for each asset class. This recommended asset allocation table has been prepared by Andbank's Asset Allocation Committee (AAC), comprising managers from the portfolio management departments in each of the jurisdictions in which we operate.

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